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'Lobbying: Buying and Utilizing Access'
W. Mayer and S. Mujumbar

Idea of the paper and main results

The authors claim that the popular lobbying approach that money buys politics (i.e. Grossman and Helpman (1994)) relies on unrealistic assumptions and thus faces difficulties to explain how firms may overcome the free-rider problem which is associated with collective group action. According to the authors it is more realistic to assume that money is a necessary prerequisite in the lobbying process which buys access to politicians, and influence takes place as a process of information transmission once access has been granted. The aim of the paper is to combine these two approaches and model lobbying as a costly process in terms of money and time (p. 3).

The paper does not analyze the transmission channel of information in detail. Rather, lobbying reduces profits which reflects the cost aspect of buying access; and lobbying diverts management time, which decreases the productivity of the input factors and reflects the aspect of information transmission. The authors analyze the lobbying choice of import competing firms in a partial equilibrium model. They focus on the aspect of free-riding, and lobbying competition is therefore absent. Lobbying efforts depend on access costs, firm size and the firms' size distribution. The main results are that larger firms tend to lobby more than smaller ones (Prop. 3); A more unequal size distribution of lobbying firms implies less total lobbying by the industry and may or may not increase the number of firms which engage in lobbying (Prop. 5); A decrease in the world price may or may not lead to more or less industry lobbying (Prop. 7); The introduction of contribution caps may increase the number of firms which lobby (Prop. 4).

General comments

Overall, the paper is not very precise in analyzing how different factors (like firm size, the size distribution, lobbying caps) affect the extent of lobbying. The results often state that anything may happen, and it is unclear under which circumstances an effect dominates another (compare Prop. 2(a), '...possibly all..'; Prop. 4(b), 'Possibly increases...'; Prop. 5, '... might grow...'; Prop. 6(b); Prop. 7(b)). In its current version, the paper generates few new insights and the analysis should be more focused and precise.

The assumption is that lobbying efforts divert management activities away from productive activities, which in turn reduces factor productivity, which does not seem to play a big role in practice (especially as the authors criticize the other approaches as being unrealistic, p. 1/2). Lobbying is usually conducted by 'public communication' departments or is outsourced to specialized firms. I'd like to see some (at least anecdotal) evidence which supports the assumption.

From a technical point of view, the authors do not model the transmission of information in a lobbying process (footnote 13 should be more prominent). In fact, the assumptions about the lobbying process are crucial in the sense that they lead to convex lobbying costs (due to concavity of g, p. 5)), which drives the result that several firms may lobby in equilibrium. The authors discuss these aspects on page 9/10, and they nicely relate their approach those of by Olson and Hillman. However, they do not work out in which respect their approach differs from a model where campaign contributions buy policies and convex lobbying costs are convex. In my opinion their approach is well in the tradition of models which the authors consider unrealistic.

The presentation of the propositions is too lax. I'd prefer a more regular structure with propositions and proofs.

Originality and new insights

I have serious concerns that the paper is actually new and original. The authors published a paper which appears to be quite similar with respect to the modeling approach and the results which are presented here, although the focus is a bit different (Mayer and Mujumdar (2003), reprint in Di Gioacchino et al. (2004)). The authors do not cite this paper in the current submission to Economics E-Journal and they do not state how the new paper relates to the former one. In both papers the authors model lobbying as a costly activity which decreases profits in order to get access and it diverts management time which decreases factor productivity. With slightly modified notation, the functional forms are the same in both papers. In the 2003 contribution, there are both an import competing and an exporting sector (but the analysis focuses on importing firms), while in the current version there is only an importing sector.

I found it difficult to find new results in the current paper. For instance, section 3 of the current version analyses the firm's lobbying decision in the same way as section 3 in the 2003 paper does (and Prop. 1 in the current version is the same as Prop. 1 in the 2003 version, even though better formulated). Prop. 2 is close to Prop. 2 in the 2003 paper. In section 6 the authors analyze the effect of a decline in the world price for the import competing sector if labor cannot be reallocated within the industry, in section 8 if this is possible (section 7 is missing). In the former case the industry collective lobbying effort increases (Prop. 6), in the latter case the effect is weakened and collective lobbying may increase or decrease (Prop. 8). This result is surprising because the 2003 paper Prop. 3 states that under conditions which appear to be similar, the import industry's collective lobbying increases. To me it remains unclear what drives the differences (if there are any), and I suggest that the authors either work out the proposition better or explain why differences emerge compared to the 2003 result.

What is new in the current version? First, the current version focuses on firm heterogeneity and shows that large firms tend to lobby more (Prop. 3 and 5). Parts of these results are also present in the former version (Prop. 3 in the 2003 paper), yet they are better worked out here. Second, the authors analyze how a cap on lobbying expenditures affects the lobbying activities of firms (Prop. 4). This aspect is new compared to the 2003 paper.

I am not convinced that this justifies a new paper, especially as the current approach to a large extents replicates former results. I suggest that the authors clearly explain what the new insights are and how the paper relates to former work. For a paper which focuses on the analysis of firm heterogeneity and lobbying caps, I'd like to see a discussion of recent contributions in these fields (i.e. Che and Gale (1998); Cotton (2009)).

Detailed comments

These general remarks notwithstanding, I'd like to comment on some details:

p.1: Beginning of paragraph two (footnote 1), I'd like to see some data here (for instance the amount of campaign contributions in the United States or in a European country, or examples which show that interest groups pay to opposing candidates at the same time).

p.2: First full paragraph: The criticism may be appropriate if directed towards the original contribution by Olson. However, textbook examples incorporate firm heterogeneity and show how it may helps to overcome the free-rider problem in an Olson context (i.e. Mueller (2003, Chapt. 20.1)). How do the findings of the paper relate to these well known insights?

p.8: For the determination of the lobbying equilibrium, I'd rather expect the derivation of reaction functions of all firms. Equations (9) and (8') describe the best responses given a certain action of the others. Note that if the second firm starts to lobby, incentives in (9) change as well.

Sect.4 State that you assume firm heterogeneity here.

p.13: First paragraph: I suggest to state the result as an effect which weakly increases the number of firms which lobby in equilibrium.

p.15: At the beginning of section 6, state that you assume that labor cannot be reallocated between firms.

p.17: End of the page: What is the result with heterogeneous firms?

Miscellanea

p.2/24: The reference to Bombardini (2004) is outdated, it should be Bombardini (2008).

p.12: 'If ~~now~~ a lobbying...'.

p.13: First line, 'all ~~already~~ lobbying firms have...'.

p.13: Prop. 5: Delete one dot at the end of sentence.

p 15: Change '... Hillman, runs...' into '...Hillman - runs...'; '... of capital is ~~much~~ greater than...'; '... cut its lobbying ~~time~~ by more...'.

p.15: Prop. 6(c): Delete one dot at the end of sentence.

p.16: Check font size for formula close to end of the page.

p.17: There is no section 7.

References

Bombardini, M. (2008). Firm heterogeneity and lobby participation. *Journal of International Economics*, 75(2):329 – 348.

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Grossman, G. M. and Helpman, E. (1994). Protection for sale. *American Economic Review*, 84(4):833–850.

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